

PUBLIC GOODS AND PUBLIC BADS:  
COMMENTS ON MANCUR OLSON'S "THE OPTIMAL INSTITUTIONAL MIX"

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PREFACE

The following note, for publication in the Proceedings of the December, 1968 meetings of the American Economic Association, is based upon oral comments I made at those meetings upon Mancur Olson's paper, "The Optimal Institutional Mix: The Division of Responsibilities Among Different Levels of Government." As a result of my comments at the meetings, Olson revised his paper somewhat to reflect some agreement with them in its published version; however, the comment remains relevant to the paper in its published form.

The note, of course, is not fully self-contained, but my difference with Olson's approach should be clear enough. The following citations from Olson's paper (which do not illustrate the limitation upon which I focus my comment) indicate the general intent of his discussion.

"Though economic theory provides a good basis for decisions about which functions ought to be performed through free markets, and which by collective or governmental action, it does not tell us what type of government or institution should be performed by a local, state, or central government, by an ad hoc authority or organization, by an international organization, or by some other type of institution.

". . . The debates on this subject have lately taken on a new twist as the 'new left' has forsaken the 'old left's' emphasis on central planning and nationalization in favor of 'participatory democracy,' which appears to involve a degree of decentralization at least as great as the old right or classical liberals have advocated. . . .

"What principles ought to guide the development of a rational pattern of jurisdictional responsibility? Is a large scale, centralized government a necessary condition of efficiency? Or a systematic reliance on small, local governments with rational boundaries?

". . . The first assumption is that the governments, authorities, and other institutions we consider produce only collective or public goods, which are defined for this purpose as goods such that it is not feasible to exclude non-purchasers from their consumption.

". . . We ask here, 'What are necessary conditions for the allocative efficiency in the provision of collective goods?' "

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Mancur Olson asks "What type of government should produce given public goods?" but he does not comparably address, "What type of public goods should government(s) produce?" Yet the two issues are strongly related.

To determine the level or agency of government that will serve a broadly-defined function is, to a large extent, to determine who will control or influence policy regarding that function, and also who will do the implementing: since different interest-groups have greatly varying access to and influence upon different organs of state (e.g., state vs. national legislatures or executives, local or state vs. federal courts). Hence it is to determine -- in line with the views and interests of the groups having dominant influence at the level of government chosen -- both the policies governing the nature and content of public programs, and the way (and by whom) such public services are performed. In short, it is to determine the precise kinds of public goods to be produced.

In contrast to the familiar examples of roads and bridges, most of the broad categories of public services at issue -- e.g., education, welfare, defense, public safety -- by no means constitute well-defined "goods" from the point of view either of production or consumption.

By taking the nature of the "public goods" to be produced by "government" as given, Olson neglects some of the most important controversies and conflicts of interest that actually arise over "the division of responsibilities among different levels of government."

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In effect, he reduces the questions he is addressing to technical problems of efficiency, matters for administration or organizational theory: questions of "How?" and "How much?," "At what cost?" and "At what level?" in "government" (conceived as an overall complex entity) the given goods should be produced. The problem becomes equivalent to that of determining, in the sphere of "private goods," the degree of autonomy to be granted by the General Motors Corporation to the Chevrolet and Pontiac Divisions, in light of various considerations relating to the desirable level of production, costs and prices of Chevrolets and Pontiacs. But the questions "Who produces?" (i.e., what individuals, representing what interests), "For whom?" and "To what end?" are political rather than technical, and, as argued above, they tend to determine the precise nature of the "good" being "produced." By ignoring some of these matters and taking others as given, Olson manages to abstract from politics, even while purporting to talk about "governments" and about disputes that are intensely political.

Among the consequences of the processes of producing governmental "goods" -- thus, among aspects of the nature of goods being produced -- must be considered: a) feelings (by one or another subset of the individuals in the community) of power, involvement, responsibility, of having a voice, of "being someone" and "mattering"; b) the provision of jobs, status, channels of social advancement, and representational roles; c) the reduction of "social injustice"; and d) the educational impact of values expressed, in word or action, by governmental figures or agencies.

Variation in each of these dimensions can be regarded as essentially affecting the very nature of the "public good" being produced. A largely black school board, for example, that brings about increases in the proportion of black teachers, may not only affect the overt content of the curriculum; it also clearly enhances the sense of political potency of black electors who put them there, and their sense of their ability to communicate to public officials. And the very presence of a black teacher at the head of a classroom may be an important part of the education that is imparted to both black and white students. (The

same changes might be experienced as setbacks by certain groups of alienated whites.) Such changes might well be expected to follow, or require, changes in districting and "division of governmental responsibility"; they would probably be at the heart of controversy concerning the latter decision, far more than expected impact on the efficiency of producing a given output. (Parts of Olson's Section V, added since the meetings in response to the oral version of these comments, now do reflect this point.)

Indeed, these variables have so profound an effect on the character of the function being performed as to put into question, for some members of the society and some outputs, the very term, public "good." Perhaps there is need for a theory of the production of "public bads" or "bad public goods." These might be defined as undesirable outputs such that the victims cannot easily buy themselves out of the damage (as they see it, or perhaps in third-party eyes) imposed upon them by the functioning of government or other organizations. Thus, if operations to reduce air pollution represent a "public good," the smog itself might usefully be regarded as a "public bad."

Among a list of "public bads," radical social critics, and not only they, might nominate: a) the psychological and social impact of police harassment of ghetto residents in the course of "maintaining order"; b) the contributions of the current penal system to the production of criminals; c) the contribution of the welfare system to feelings of helplessness, exclusion and inferiority and in other ways, to the perpetuation of a culture of poverty; d) an educational system that, by its nature and personnel, as much as by course content, indoctrinates, preconditions or shapes values in ways that appear, from various points of view, objectionable; e) contributions of the "national security bureaucracy" to the generation of unnecessary, unpromising or unjust U.S. foreign interventions and wars.

The aim of reducing the production of specific public bads is a major consideration, neglected by Olson, in conflicts over the responsibilities of divisions of government. (E.g., to choose a relatively nonobvious illustration, the last "bad" cited has great bearing on

current disputes over the desirable role of Congress vis-a-vis the Executive, in the making of foreign policy and the commitment of U.S. troops). As in matters of public "goods," not merely technical questions come into play, but political ones; what groups influence what governmental organs, and to what effect. And there are some special considerations. For example, where a process tends to have as a by-product certain public bads, the cogency of one of the questions on which Olson focuses, the efficiency of the production process, is called into question; unless this means reducing the marginal increment of the public bad, do we really want the cost of the process lower, or do we wish it higher, to limit the output of bad goods?